

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOTI-00 INR-07 NSAE-00 CIEP-01 FAA-00 L-03 XMB-02

PA-01 USIA-06 PRS-01 SP-02 /040 W

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R 150840Z JUL 76

FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC 5774

LIMITED OFFICIAL USE SINGAPORE 3423

E.O. 11652: N/A

TAGS: EAIR, SN

SUBJECT: SINGAPORE AIRLINES SIGNS CONTRACT FOR PURCHASE OF BOEING 727

S

REF: (A) SINGAPORE 2712, (B) SINGAPORE 3019

SECSTATE PASS TO EXIM BANK

1. BEGIN UNCLASSIFIED: ON JUNE 30, 1976, SIA SIGNED CONTRACT WITH BOEING AIRCRAFT COMPANY FOR PURCHASE OF THREE 727 AIRCRAFT WHICH, TOGETHER WITH SPARES, COST TOTAL OF US\$44 MILLION. THE AIRCRAFT WILL BE DELIVERED IN OCTOBER, NOVEMBER AND DECEMBER OF 1977 AND WILL BE USED ON SIA'S SERVICES TO JAKARTA, BANGKOK, HONG KONG, TAIPEI, SEOUL, MANILA, COLOMBO AND MADRAS. SIA HAS ALSO TAKEN OPTION ON ADDITIONAL SIX 727 AIRCRAFT, FOR DELIVERY IN 1978 AND 1979.

2. FOR LAST THREE YEARS SIA HAS BEEN EVALUATING NEW AIRCRAFT TYPES FOR ITS REGIONAL SERVICES AND MEDIUM-HAUL ROUTES. CHOICE QUICKLY NARROWED TO TWO AIRCRAFT, THE BOEING 727-200 AND AIRBUS A300. RESPECTIVE MERITS OF THESE TWO AIRCRAFT HAVE BEEN UNDER INTENSIVE STUDY SINCE BEGINNING OF 1975. ACCORDING TO PRESS RELEASE ANNOUNCING PURCHASE, SIA CHOSE THE 727 PRINCIPALLY BECAUSE

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ITS CAPACITY OF 140 SEATS IS MORE APPROPRIATE FOR

THE AIRLINE'S ROUTE PATTERN AND SCHEDULES THAN THE
232-SEAT A300.

3. SIA LAST DECIDED ON NEW AIRCRAFT IN 1972, WHEN
IT NEEDED LARGER AIRCRAFT THAN THE BOEING 707 TO OPERATE
ON LONG-HAUL ROUTES TO EUROPE, AUSTRALIA AND JAPAN.
BOEING 747 WAS SELECTED, AND PURCHASE OF FIVE 747S TO DATE
HAS ENABLED SIA TO REPLACE 707S PROGRESSIVELY ON SERVICES
TO TOKYO AND TO LONDON. THE 707 AIRCRAFT WHICH WERE RE-
LEASED WERE USED PRINCIPALLY TO EXPAND OPERATIONS WITHIN
ASIA. HOWEVER, SIA DECIDED THE 707 AIRCRAFT IS NOW NEARING
END OF ITS USEFUL LIFE IN TERMS OF TECHNICAL DEVELOPMENT,
OPERATIONAL ECONOMIES AND NOISE POLLUTION. FURTHERMORE,
THE 737 AIRCRAFT IS TOO SMALL FOR THE FUTURE AND SUFFERS
FROM RELATIVELY HIGH COSTS OF OPERATION.

4. AS RESULT OF THE INTRODUCTION OF THE NEW 727S, ONE 707
AIRCRAFT WILL BE RELEASED AND WILL BE CONVERTED FOR
FREIGHT OPERATIONS(REFTEL B). ONE 737 AIRCRAFT
WILL BE REDUNDANT AND SOLD. SIA HAS ALSO EXERCISED
ITS OPTION FOR A SIXTH 747 WHICH WILL BE USED
PRIMARILY TO INCREASE FREQUENCIES ON EXISTING ROUTES
(E.G. TO PERTH) AND POSSIBLY TO OPEN NEW ROUTE TO THE
U.S. FYI: EMBASSY UNDERSTANDS EXIM WILL BE OFFERING
SOME TYPE OF FINANCING FOR SALE OF SIXTH 747, BUT WE
HAVE NOT RECEIVED COPY OF PRELIMINARY COMMITMENT LETTER.
END UNCLASSIFIED.

5. BEGIN LIMITED OFFICIAL USE. COMMENT: REFTEL A
ANNOUNCED ONLY CONDITIONAL AGREEMENT ON PURCHASE OF 727'S
SINCE IT WAS NECESSARY FOR BOEING REPS TO GET CLARIFICATION
ON SEVERAL ISSUES FROM PARENT COMPANY AND FOR DOS DEPARTMENT
OF CIVIL AVIATION TO APPROVE MODIFICATIONS PLANNED FOR THE AIR-
CRAFT PRIOR TO FINAL AGREEMENT. HOWEVER, ADDITIONAL
CONFUSION WAS ALSO CAUSED BY LAST-MINUTE EFFORT BY AIRBUS
REPS TO "SWEETEN" THEIR OFFER. ALTHOUGH THERE WAS LITTLE
QUESTION THAT THE 727 WAS MORE SUITABLE TO SIA'S NEEDS, IT
BECAME APPARENT THAT THE AIRBUS TEAM WAS WILLING TO GO TO
GREAT LENGTHS IN TERMS OF FINANCIAL ASPECTS OF SALE TO
PENETRATE THE SOUTHEAST ASIA MARKET. EMBASSY HAS NOT BEEN
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ABLE TO FIND OUT DETAILS OF AIRBUS' FINAL OFFER
BUT, ACCORDING TO ONE SOURCE, IT CONSISTED OF
GUARANTEED LEVEL OF PROFITS FOR UNSPECIFIED
PERIOD OF TIME IF SIA OPERATED A300 INSTEAD OF
B-727. (ANOTHER SOURCE SAID AIRBUS WOULD GUARANTEE
TO MAKE UP DIFFERENCE IN OPERATING COSTS CAUSED BY
EXCESS CAPACITY OF A-300 PLUS ADDITIONAL REVENUES
THAT COULD BE EXPECTED FROM OPERATION OF 727 WITH

CERTAIN PERCENT OF SEAT UTILIZATION ABOVE BREAK-
EVEN LOAD FACTOR.) AIRBUS WAS REPORTEDLY WILLING TO
MAKE THIS OFFER BECASUE SIA IS CONSIDERED LEADER FOR
OTHER AIRLINES IN THE REGION IN DECISIONS ON AIRCRAFT
PURCHASING. END LIMITED OFFICIAL USE.
HOLDRIDGE

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